

Corporate Social Credit System (CSCS)

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SCCC Webinar on the CSCS:

What is it, what next and how to get organized for it?

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Hailin Wang | Consultant
Hailin.wang@sinolytics.ch

Markus Herrmann | Director
markus.herrmann@sinolytics.ch

Sinolytics GmbH / www.sinolytics.ch



Sinolytics – a European research-based consultancy entirely focused on China

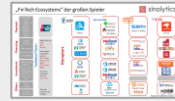
Profile

- Founded in 2017, Sinolytics is a client-serving, agile boutique consultancy with offices in **Berlin, Zurich and Beijing**
- Uniquely blending **in-depth research** with management consulting approach to **problem solving**
- Operating at the **nexus of business and policy** and analyzing **China's political economy**, Sinolytics advises companies from across business sectors and functional areas
- **50+ clients**, including some of the largest and most respected foreign companies operating in China

Key expertise areas



Policy/regulatory analysis, monitoring & forecasting (e.g., CSCS, cybersecurity, sustainability, industrial policies)



China's digital transformation with focus on Blockchain, digital currency, e-Commerce and Insurance/FinTech



Cooperation/partnerships (e.g., tech-transfer/partnerships, subnational/city-partnerships, trade associations)



The Belt and Road Initiative – with focus on challenges and opportunities for foreign logistics, finance and EPC sectors



China's industrial, technology and trade policies impacting corporate strategies and offering cooperation opportunities

Approach

Primary source and Chinese-language research

Problem-solving and developing tailored solutions

Flexible delivery formats: strategies, reports, workshops

Depth in content, while strong in contextualization

Extensive expert network and research partners



Sinolytics CSCS team – tracking the CSCS since 2015



Markus Herrmann
陈瑞华
Director
MD Switzerland

An experienced advisor to European corporate and public sector clients with expertise in regulatory topics (e.g., CSCS, cybersecurity), China's foreign economic policy incl. trade policy and the Belt and Road Initiative as well as in public / government affairs strategies



Luisa Kinzius
梦洁
Project Leader

A specialist on Chinese market regulation. She extensively worked on projects analyzing the impact of big-data enabled market regulation and regulatory ratings on companies. She also observes the current trends in China's FinTech industry as well as emerging blockchain-based business models.



Jingwen Tong
童婧雯
Consultant

Jingwen advises private and public sector clients on regulatory compliance, partnership building and engagement strategies. With experience talking to local governments in China, Jingwen delivers granular insights into policymaking and implementation dynamics on the ground.



Sishi Xie
谢思诗
Analyst

Sishi analyzes Chinese central and provincial policies relating to China's global logistics ambitions, deriving insights on the interlinkages of Chinese policies and company activities on the ground. She also supports international companies to maintain a good CSCS performance.



Mirjam Meissner
梅莉
Director

Mirjam is an expert on market regulation, industrial and technology policy and digital disruption in China and a leading specialist on China's big data-enabled regulation of companies via the Social Credit System. She has supported many companies in adjusting to the challenges of China's regulatory ratings.



Hailin Wang
王海林
Consultant

Hailin has extensive experience researching and analyzing industrial policy and corporate performance, especially in the areas of energy policy, sustainability and environmental protection



Camille Boullenois
班开玫
Consultant

Camille advises clients on the regulatory challenges arising from the Corporate Social Credit System. With many years of experience in China, she has an outstanding command of the Chinese language and political landscape.



Björn Conrad
孔溯永
CEO

Björn Conrad, CEO and co-founder of Sinolytics, has almost two decades of China experience. He is a recognized expert on China's economic, industrial and technology policy as well as its digital transformation. He has also advised many of Europe's largest companies on challenges arising from China's Social Credit System.



We have been actively engaging in public discussion on the CSCS

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Taking a Step Back

February 1, 2021 - Business - Tagged: benefits, Corporate Social Credit System, market, performance - no comments



Re-conceptualising China's Corporate Social Credit System and why foreign companies need to learn to coexist with it

Despite being intensely debated in both China and internationally, China's Corporate Social Credit System (CSCS) is here to stay. In fact, in late 2020, the State Council clarified that the implementation of the CSCS will be reinforced – together with various ongoing governance reforms, including Internet+ supervision. **Hallin Wang** of **Sinolytics** believes that this is not necessarily bad news for foreign companies: a fresh look at the

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The Digital Hand
How China's Corporate Social Credit System Conditions Market Actors



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Jan 09, 2020 07:28 PM OPINION

Opinion: In the Corporate Social Credit System Era, Companies Will Have to Rethink Compliance

By Markus Herrmann and Luisa Kinzius



Handelsblatt

Wirtschaft & Politik



Unter verschärfter Beobachtung

China plant zunehmend die Unternehmen im eigenen Land unter die Lupe. Wer eine schlechte Bewertung bekommt, hat die Nachbarn. Westliche Firmen sind oft ahnungslos und überfordert.



Neue Zürcher Zeitung

«Eine lückenlose Compliance mit den geltenden Bestimmungen ist die beste Vorsichtsmaßnahme»

China-Experte Markus Herrmann erklärt, wie ausländische Unternehmen sich auf Chinas Social-Credit-System vorbereiten können.

1 Section 1: Why was it started?

2 Section 2: How does it affect companies?

3 Section 3: Where is it heading?

4 Section 4: How to get organized?

Recap: CSCS among supervision tools introduced to optimize business environment

Optimize the Business Environment 优化营商环境



Reform of government functions 放管服改革



Credit
Supervision
信用监管

Two
Randomness
One
Publicization
Supervision
双随机一公开
监管

Internet +
Supervision
互联网加监管

Coordinated
Supervision
协同监管

Tolerant and
Prudential
Supervision
包容审慎监管

中共中央关于制定国民经济和社会发展第十四个五年
规划和二〇三五年远景目标的建议

2020-11-03 18:06 来源：新华社

【字体：大 中 小】 打印 分享 更多

新华社北京11月3日电

中共中央关于制定国民经济和社会发展第十四个五年规划和二〇三五年远景目标的建议
(2020年10月29日中国共产党第十九届中央委员会第五次全体会议通过)

“十四五”时期是我国全面建成小康社会、实现第一个百年奋斗目标之后，乘势而上开启全面建设社会主义现代化国家新征程、向第二个百年奋斗目标进军的第一个五年。中国共产党第十九届中央委员会第五次全体会议深入分析国际国内形势，就制定国民经济和社会发展“十四五”规划和二〇三五年远景目标提出以下建议。

一、全面建成小康社会，开启全面建设社会主义现代化国家新征程

The 14th Five-year plan outline stipulates continued reform efforts on China's market governance utilizing the CSCS as one measure

1 Section 1: Why was it started?

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Reduced market entry barriers, but CSCS enables stricter supervision during operation

China has switched its focus of market regulation from ex ante to **interim and ex post regulation**

Company life-cycle



Ex ante regulation 事前监管

- Companies can make credit promises as substitution for missing documents during administrative approvals
- Credit report shall be applied to government procurement, administrative approvals, market access, etc.



Interim regulation 事中监管

(1) Non-compliance record including non-compliance with laws and regulations, breach of credit promises (non-compliance record)

(2) Scale ratings (行业信用评价) for hierarchical supervision (分级分类监管)

(3) Comprehensive credit score (公共信用综合评价) for hierarchical supervision (分级分类监管)



Ex post regulation 事后监管

(4) Joint sanctions (联合惩戒) and credit repair mechanism (信用修复). It entails new sanctions besides the traditional administrative penalties

Detailed examples of four CSCS mechanisms pursuing different goals

1 Non-compliance record

Example: CreditChina credit profile

行政处罚决定书文号	闽厦高质交执(2021)罚字第33号
处罚类别	罚款
处罚决定日期	2021-01-05
处罚内容	罚款人民币陆仟元整
罚款金额 (万元)	0.6
没收违法所得、没收非法财物的金额 (万元)	0.0
暂扣或吊销证照名称及编号	--
违法行为类型	《福建省道路运输条例》第四十八条第一项
违法事实	2020年12月27日9时48分,我单位执法人员在该南园金梯隧道口检查时,发现神州租车(厦门)有限公司使用苏A·10GYS车辆从事汽车租赁经营活动,该车现场未能提供汽车租赁相关证件,经现场调查取证,取得相关证据,符合立案条件,建议立案

→ Overview of compliance situation

3 Comprehensive credit score (future)

Example: Zhejiang comprehensive score



→ Used for predictions and targeted supervision

2 Scale ratings

Example: environmental protection in Jiangsu

Company	Social Credit Code	Rating Result	Credit Promise
淮安市科南新材料有限公司	统一社会信用代码: 91320826323922982E	蓝色等级	暂无承诺书
丹阳市丹北镇东亚装饰材料加工厂	92321181MA1PB3DD9B	蓝色等级	暂无承诺书
灵谷化工集团有限公司	91320282142829332J	绿色等级	承诺书下载
江苏诺亚方舟农业科技有限公司	91320404567770735H	绿色等级	承诺书下载
江苏酒阳海峡环保有限公司	91321300066260235Y	绿色等级	承诺书下载
江苏酒阳海峡环保有限公司	91321300066260235Y	绿色等级	承诺书下载
泗阳县海水处理有限公司	91321323772483495X	绿色等级	承诺书下载
徐州鑫奥家用纺织品有限公司	91320382MA1YHUAG9T	蓝色等级	暂无承诺书
苏州海德新材料科技股份有限公司	91320500665755715E	红色等级	承诺书下载
江阴摩尔化工新材料有限公司	91320281765897817G	黑色等级	暂无承诺书

→ Incentivize good behavior in specific topics

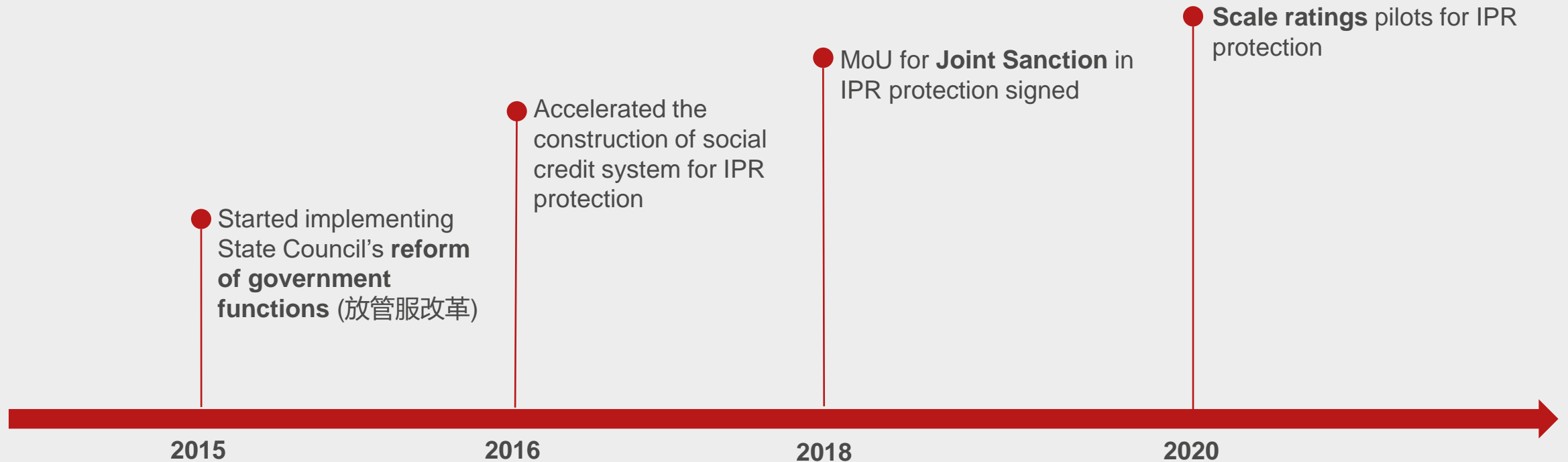
4 Joint sanctions

Example: Production Safety Joint Sanctions

制度文件	黑名单公告
	<ul style="list-style-type: none"> 中华人民共和国应急管理部公告(2020年 第1号): 移出安全生产失信联合惩戒“黑名单”单位及人员名单 2020-01-15 14:32 中华人民共和国应急管理部公告(2019年 第22号): 2019年第三批安全生产失信联合惩戒“黑名单”单位及人员名单 2020-01-09 08:46 中华人民共和国应急管理部公告(2019年 第20号): 移出安全生产失信联合惩戒“黑名单”单位及人员名单 2019-11-06 14:25 中华人民共和国应急管理部公告(2019年 第19号): 移出安全生产失信联合惩戒“黑名单”单位及人员名单 2019-09-11 10:06 中华人民共和国应急管理部公告(2019年 第18号): 2019年第二批安全生产失信联合惩戒“黑名单”单位及人员名单 2019-09-11 10:05

→ Law enforcement and increased costs of non-compliance

From records to scale ratings: Example of IPR's evolving governance reform



- Many other regulatory areas developed in the same way: Tax, Customs, Environment, etc....
- General trend for areas developing towards scale credit supervision mechanisms. Areas that will be focus in 2021 are healthcare insurance and medications, etc. (State Council, 31st Jan 2021)

Key impacts for companies: both challenges and opportunities

KEY FEATURES

IMPACTS

CHALLENGES

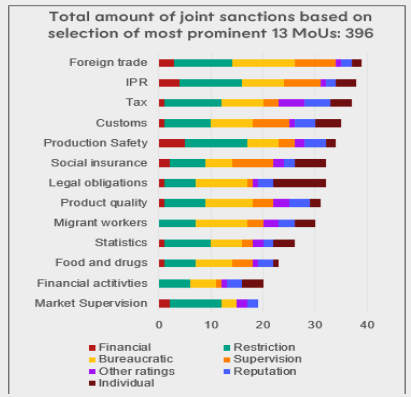
Regulatory "hassle"

Increased regulation for untrustworthy entities

Company	Social Credit Code	Rating Result	Credit Promise
北京神州兴业环保科技有限公司	911000003150000000	失信等级	禁止投标
天津神州兴业环保科技有限公司	911201000000000000	失信等级	禁止投标
江苏神州兴业环保科技有限公司	913200000000000000	失信等级	禁止投标
浙江神州兴业环保科技有限公司	913300000000000000	失信等级	禁止投标
山东神州兴业环保科技有限公司	913700000000000000	失信等级	禁止投标
河南神州兴业环保科技有限公司	914100000000000000	失信等级	禁止投标
湖北神州兴业环保科技有限公司	914200000000000000	失信等级	禁止投标
湖南神州兴业环保科技有限公司	914300000000000000	失信等级	禁止投标
广东神州兴业环保科技有限公司	914400000000000000	失信等级	禁止投标
广西神州兴业环保科技有限公司	914500000000000000	失信等级	禁止投标
四川神州兴业环保科技有限公司	915100000000000000	失信等级	禁止投标
重庆神州兴业环保科技有限公司	915200000000000000	失信等级	禁止投标
贵州神州兴业环保科技有限公司	915300000000000000	失信等级	禁止投标
云南神州兴业环保科技有限公司	915400000000000000	失信等级	禁止投标
陕西神州兴业环保科技有限公司	916100000000000000	失信等级	禁止投标
甘肃神州兴业环保科技有限公司	916200000000000000	失信等级	禁止投标
宁夏神州兴业环保科技有限公司	916400000000000000	失信等级	禁止投标
青海神州兴业环保科技有限公司	916300000000000000	失信等级	禁止投标
新疆神州兴业环保科技有限公司	916500000000000000	失信等级	禁止投标

Costly sanctions

Amount of joint sanctions in 13 regulatory areas



Spill-over effects

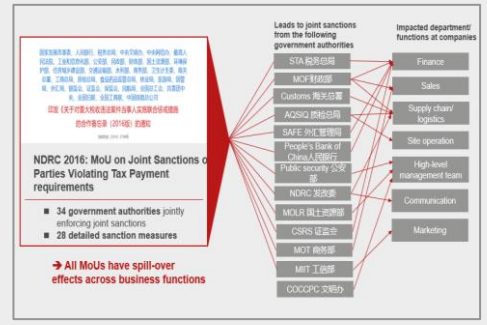
Departments affected by taxation blacklisting



OPPORTUNITIES

Rewards

Joint rewards from optimal rating in customs



Using the CSCS

For supplier/partner screening/auditing



- In case of poor management of scale ratings and one score, increased hassle from regulators

- Immediate detection of non-compliance
- More costly sanctions

- Sanctions can affect companies across functions
- Spill-over between entities also possible

- Cost-benefit analysis can help make strategic decisions on CSCS objectives

- CSCS-based information can help make informed decisions on partners

1 Section 1: Why was it started?

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Key trends: CSCS expected to expand, but with stronger legal foundation

Six key trends observed from 2020

Evidence

① **Increased legislation** to legitimize CSCS

- The scope of public credit information, its publicization, blacklisting areas and standards, joint sanctions must ground on clear legal bases

Nanjing Social Credit Regulation published in 2020

② **Local blacklisting standards and sanctions** retained for local governments

- Deal with “local particularities” for companies with entities in multiple locations
- Companies must be notified before blacklisting

Local Environmental Protection Blacklisting Standards in Yangtze Delta

③ Three forms of “**Credit Repair**” specified

- After “credit repair, companies are removed from blacklist or published distrusted behaviours or negatived records are removed from the CSCS database

CreditChina has been providing guideline for credit repair Process

④ Reiterated needs for **better data and privacy protection**; but expanded scope of organizations that can feed data to national credit platform

State Council’s policy stipulating privacy protection

⑤ More **scale ratings and “one score”**

- By 2023, Shanghai plans to complete its social credit system with more scale ratings and the one-score technically relying on the “Internet+ Supervision”

Scale ratings pilot for IPR protection started in December 2020

⑥ **Further centralization of national credit database**

- In NDRC’s very recent policy announcement, it stipulates that CreditChina should publicize scale rating results and one-score in corporate credit reports

Credit report from CreditChina will include more credit information (Jan. 2021)

CSCS will remain subject of discussion among Chinese stakeholders



Liu Yan, State Administration for Market Regulation: Based on credit supervision, develop “Two Randomness One Publicization” supervision to further strengthen supervision effectiveness



Hu Jinglin, National Healthcare Security Administration: Apply credit rating in the centralized public purchasing of medications



Standing Committee of Jiangsu People’s Congress: Questions the popular concept of turning all illegal behaviors into distrusted information; it calls for a credit information menu to explicitly list all credit information items (公共信用信息目录)



Prof. Shen Kui, Peking University: Joint sanctions must be bound by the rule of law

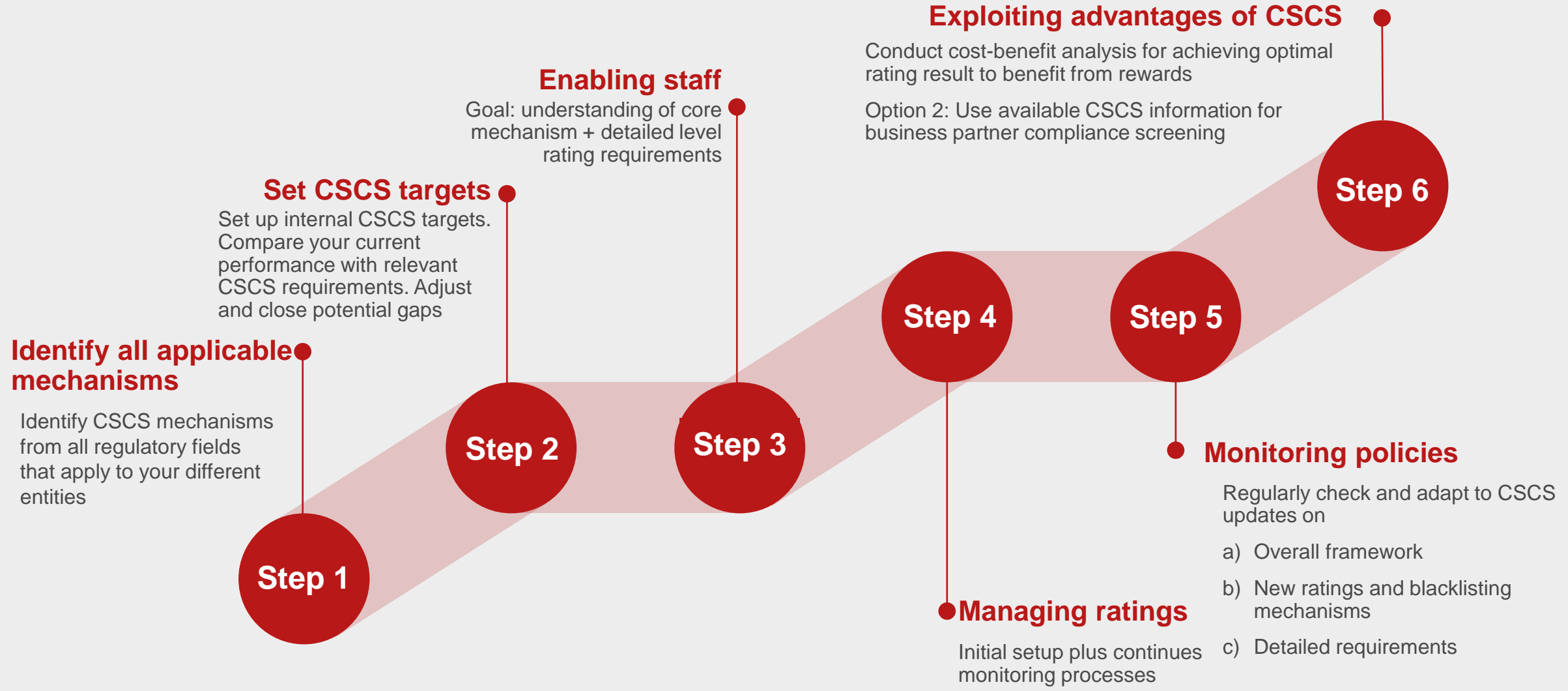
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Sinolytics experience: six steps to internally manage your CSCS work



Sinolytics: Helping companies adapt to the Corporate Social Credit System

1 CSCS Analysis

- Provide in-depth information on applicable rating mechanisms, requirements and current rating results
- Basis for well-informed decisions on how clients can most effectively adapt to the CSCS

Understanding

- **Management-level workshop:** Strategic CSCS briefing on motivation and intention, design and status of the CSCS

Applicability

- Identification of **scale ratings and blacklisting mechanisms** that apply to the client
- Analysis of **industry-specific and location-specific features** of the CSCS that apply to the client

Requirements

- **The “Playbook”:** Systematic **collection of full set of requirements** that go into evaluating the scale ratings and blacklistings
- Knowledge **foundation for all subsequent steps** of operational preparations for the CSCS

Performance

- Evaluation of **current CSCS performance per entity** for applicable rating mechanisms

2 CSCS Management

- Provide conceptual support and operational best practices for CSCS management
- Assist with the integration of CSCS into the client’s existing compliance management system

Information

- **Department-level workshops:** Transferring the information gathered during “CSCS Analysis” to the client’s operational level

Responsibilities

- Identification of optimal **CSCS coordination function** based on client’s existing compliance management structure
- Matching of ratings to departments/functions to **establish clear responsibilities** for monitoring rating performance and future risks

SOPs

- Design **SOPs for CSCS management:** rating monitoring and repair; CSCS compliance risk detection; managing data flows
- Plan the necessary **capacity-building and process design** to enable the implementation of the SOPs

Implementation

- Facilitate the **implementation of CSCS management** with tailor-made management tools incl. dashboards

3 CSCS Monitoring

- **Continuous monitoring and reporting on regulatory developments of the CSCS**
- **Assistance with integrating new regulatory developments into the CSCS management system**

Thank you for your interest and attention!

Contact:

Hailin Wang | Consultant

Hailin.wang@sinolytics.ch

Markus Herrmann | Director

markus.herrmann@sinolytics.ch

Sinolytics GmbH / www.sinolytics.ch